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SUBJECT: PST BAGHDAD: ECONOMIC DEVELOPMENT ACTIVITIES
IN BAGHDAD PROVINCE

¶1. INTRODUCTION: This cable is the first of many cables that Provincial Support Team - Baghdad (PST-B) will produce during the remainder of 2006. Cables from PST-B will focus on economic, political, and rule of law issues concerning Baghdad Province.

¶2. INTRODUCTION CONT'D: Despite a largely non-permissive environment within Baghdad Province, the Baghdad Provincial Governorate has unilaterally moved to jumpstart economic development and reconstruction within the province. Evidence is apparent with recent overtures made to foreign governments as well as interest by foreign companies who see Baghdad as a potentially profitable location despite its security risks. The following are examples of attempts by the Baghdad Provincial Council (PC) to improve the economic condition of the Province. END INTRODUCTION.

¶3. IRAN. Baghdad Province is negotiating with the Islamic Republic of Iran a substantial loan for infrastructure and economic development. The long-term loan, just shy of \$1.0 billion, may be issued at a subsidized rate of interest. (NOTE: We have yet to find out the exact terms of the loan. END NOTE.)

¶4. Elements of the PC and the Amanat (City Hall) have negotiated with Iranian companies to implement water, sewage, road, and asphalt projects within Baghdad province. Two notable Iranian companies, ARSA Construction Corporation and the Al-Asfahan Company (phonetic), have been the most proactive in negotiating with the province in an effort to break into the reconstruction/development sector. Some PC members believe there is an advantage to entering into contracts with Iran because of its proximity and the "shared infrastructure" network.

¶5. KOREA. The ROK is actively nurturing its contacts with the Provincial Government to strengthen political and economic ties. One of South Korea's military representatives in Baghdad intends to bring a number of PC members to Seoul to meet with Korean commercial interests to discuss the potential of opening the Baghdad commercial market to Korean goods and services. Additionally, they hope to facilitate an entree into the reconstruction and development sector in Baghdad by South Korean companies.

¶6. The ROK is considering providing \$5.0 million to the PC for development projects. While we do not know the terms of the prospective grant/loan, it would likely provide a substantial boost to the PC's development coffers. At least one PC member has

implied that this funding would be used to build a street light network utilizing solar power to run the system. The network would be added to areas currently at risk and would allow Baghdad municipal workers to clean streets in the evenings when there is less vehicular traffic.

¶17. EGYPT, LEBANON. The PC would like to develop trade/economic relationships with Egypt and Lebanon. According to the Chairman of the PC's Reconstruction and Development committee, Egypt and Lebanon are seen as neutral countries that are not historical enemies of Iraq and that have a number of companies in a good position to enter the Baghdad market.

¶18. CHINA. In late fall 2005, former PC Chairman Mazin Makiya traveled to Beijing and helped negotiate a contract with the Zhongxing Telecommunications Equipment (ZTE) Company, Ltd., one of China's largest telecommunications companies. The Iraqi company Baghdad Connection has the contract with ZTE to provide wireless phone service within Baghdad province. Fulfillment of the contract is being delayed by red tape at the Ministry of Communications over the issuance of code numbers needed to receive a signal when making telephone calls. The contract has the potential to generate jobs for many Iraqi nationals, something sorely needed in Baghdad.

¶19. KUWAIT. The Kuwaiti Government plans to provide the Amanat a loan of \$30 million for infrastructure and development projects in the province. Additionally, the Kuwaiti Government has expressed a desire to connect some of its companies with

BAGHDAD 00000724 002 OF 002

representatives from Baghdad Province to discuss potential joint ventures and other business opportunities.

COMMENT

¶10. COMMENT: Although foreign investment and development assistance in Baghdad is not flooding into the province, a fair number of private investors and donor countries are willing to explore business development and reconstruction opportunities despite the security challenges. This trend potentially bodes well for Baghdad province and may, in the long-term, generate benefits for the foreign companies initiating business early. Western business interests are noticeably absent from the list of companies willing to explore business development in the province. This is likely attributable to the high profile such companies would have if they established themselves in Baghdad.

¶11. COMMENT, CONT'D: The real benefactors of business development and reconstruction by foreign interests would clearly be the people of Baghdad. New development and reconstruction contracts and the infusion of foreign capital would create jobs and bring in sorely needed capital. This development would reduce the monetary appeal of supporting the insurgency, as the formerly unemployed would presumably have a greater desire to work for the betterment of the city, the province, the region, and the country. END COMMENT.

KHALILZAD